

Message Text

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SUBJ: TURKEY'S IMF STANDBY PERFORMANCE: CONSEQUENCES OF FAILURE
TO MEET IMF CONDITIONS

REFS: (A) ANKARA 5204 (B) ANKARA 5111

SUMMARY. IF THE IMF JUDGES TURKEY TO BE IN VIOLATION OF THE
CONDITIONS OF ITS STANDBY AGREEMENT, AS SEEMS LIKELY, THERE COULD
BE SERIOUS CONSEQUENCES FOR US/TURKISH RELATIONS AND FOR US INTERESTS

.
ONE NOTABLE RESULT MIGHT BE THAT THE GOT WOULD BLAME THE US FOR
PROMPTING THE IMF DECISION OR AT LEAST FOR DOING NOTHING TO FORESTALL
IT, SEEING THE FUND AND THE BANKING COMMUNITY AS INSTRUMENTS OF US
PRESSURE ON PRIMIN ECEVIT TO MAKE CONCESSIONS ON CYPRUS AND TO
GREECE. IT MAY BE APPROPRIATE FOR OECD CONSORTIUM TO MEET EARLY IN
SEPTEMBER TO REVIEW DARKENED OUTLOOK FOR TURKEY. WHILE IT IS UP TO
TURKS TO TAKE CORRECTIVE MEASURES BEFORE THEY CAN EXPECT FURTHER
OFFICIAL AID, USG SHOULD BEGIN TO CONSIDER THAT THE PROSPECT OF AID
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FROM FOREIGN GOVTS, CONDITIONED STRICTLY UPON MAINTENANCE OF ECONOMIC
DISCIPLINE BY THE GOT, MIGHT HELP TURKISH OFFICIALS TO TAKE ADEQUATE
REFORM MEASURES. A CONCERTED EFFORT COULD HELP SALVAGE RESCHEDULING
AND CREDIT ARRANGEMENTS UNDER WAY WITH BANKS AND GOVERNEMENTS AND
HOLD CONTRACTION OF ECONOMIC ACTIVITY TO A LEVEL THAT WILL NOT CON-
TRIBUTE TO DOMESTIC INSTABILITY. END SUMMARY.
1. IF THE IMF DECIDES, AS SEEMS LIKELY, THAT TURKEY DOES NOT

QUALIFY TO DRAW THE NEXT TRANCHE UNDER ITS STANDBY AGREEMENT, THERE COULD BE A NUMBER OF CONSEQUENCES OF CONCERN TO THE UNITED STATES. THE US MAY FIND THAT FOR AS LONG AS TURKEY FAILS TO COMPLY WITH IMF CONDITIONS AND THE STANDBY REMAINS SUSPENDED

--AMERICAN AND OTHER BANKS WILL BE UNWILLING TO PROCEED WITH RE-SCHEDULING \$2.5 BILLION DUE OR OVERDUE TO THEM FROM THE TURKISH GOVT AND MAY START TO SCRAMBLE FOR WHATEVER AMOUNT OF THE OVERDUE PORTION THEY CAN PUT THEIR HANDS ON:

--THE COORDINATING COMMITTEE OF EIGHT BANKS NOW TRYING TO RAISE \$500 MILLION IN NEW CREDIT FOR TURKEY WILL STOP ITS EFFORTS AND NO OTHER COMMERCIAL LOANS ARE LIKELY TO BE MADE TO THE GOT IN THIS PERIOD

--IF THE STANDBY CONTINUES IN SUSPENSION FOR SEVERAL MONTHS, TURKEY MAY BE DRIVEN BY THE UNAVAILABILITY OF FOREIGN FINANCING TO EXPAND ITS BILATERAL PAYMENTS ARRANGEMENTS, ESPECIALLY WITH EASTERN EUROPEAN COUNTRIES, TO SETTLE IMPORTS IN KIND;

--THE GOT WOULD PROBABLY BLAME THE UNITED STATES AS THE BIGGEST CONTRIBUTOR TO THE IMF, BOTH FOR THE DECISION TO SUSPEND THE STANDBY AND FOR THE LACK OF BANKING INTEREST IN TURKEY, CHARGING THAT THE US INSISTS ON MAINTAINING PRESSURE ON TURKEY TO MAKE FURTHER CONCESSIONS ON CYPRUS AND TO GREECE;

--IF THE STANDBY CONTINUED INOPERATIVE OVER TIME, THE DETERIORATION OF THE ECONOMY COULD CONTRIBUTE TO THE FALL OF THE ECEVIT GOVT. ALTHOUGH THE USG HAS NO FAVORITES AMONG TURKISH POLITICAL LEADERS, WE ARE NOT SURE THAT A BETTER GOVERNMENT COULD REPLACE THIS ONE.

2. IN THE ABSENCE OF OUTSIDE CREDITS, THE ONLY WAY IN WHICH TURKEY CONFIDENTIAL

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CAN BRING ITS EXTERNAL PAYMENTS MORE NEARLY INTO BALANCE IS BY REDUCING ITS FOREIGN SPENDING DRASTICALLY. IMPORTS HAVE ALREADY DROPPED SHARPLY THIS YEAR, DOWN TO AN ANNUAL RATE OF \$4.4 BILLION IN THE FIRST FIVE MONTHS, COMPARED TO \$5.8 BILLION REALIZED IN CY 1977. INDUSTRY IS NOW OPERATING AT ABOUT 50 PERCENT OF CAPACITY. A CONTINUED DECLINE IN IMPORTS AND IN THE INDUSTRIAL ACTIVITY WHICH THEY FEED MAY BE THEORETICALLY EXCELLENT FOR THE RESTORATION OF ECONOMIC EQUILIBRIUM BUT AT SOME POINT IT WILL TEST THE POLITICAL TOLERANCE OF A SOCIETY ALREADY PLAGUED BY VIOLENCE WHICH THE GOVT, DESPITE ALL ITS PROMISES, HAS FAILED TO REDUCE.

3. WE THINK THAT IT IS OF GREAT IMPORTANCE THEREFORE THAT THE PARTIAL

PROGRESS TURKEY HAS MADE--IN OBTAINING THE AGREEMENT OF OECD CREDITOR COUNTRIES TO RESCHEDULE ITS OFFICIAL DEBTS, IN ALMOST COMPLETING ARRANGEMENTS FOR A CONSOLIDATION OF THE \$2.5 BILLION DUE TO PRIVATE BANKS, IN WORKING OUT DETAILS FOR A SYNDICATED LOAN FROM BANKS, AND IN REACHING AGREEMENT WITH THE IMF--SHOULD NOT BE DISSIPATED BUT BUILT UPON.

4. EMBASSY BELIEVES THAT IT MAY BE DESIRABLE FOR OECD CONSORTIUM FOR TURKEY TO MEET IN SPECIAL SESSION IN EARLY SEPTEMBER TO REVIEW THE SITUATION AND TO LISTEN TO AND DISCUSS TURKEY'S PROPOSALS FOR TREATING ITS PROBLEMS. THE TURKS WOULD BITTERLY RESIST BEING

TOLD BY FOREIGNERS HOW TO RUN THEIR ECONOMY. THE MEETING SHOULD THEREFORE BE CALLED TO BRING CREDITOR COUNTRIES UP-TO-DATE ON TURKISH ECONOMIC DEVELOPMENTS. THE QUESTIONING SHOULD BE TOUGH AND PRE-PLANNED. AND DELEGATIONS OF ECONOMIC EXPERTS SHOULD COME PREPARED TO DISCUSS WITH THE TURKS THE POLICY CHOICES WHICH THE TURKISH SITUATION PRESENTS AND THE RELEVANT EXPERIENCES OF OTHER GOVERNMENTS.

5. THE TURKS WILL PROBABLY USE THE MEETING TO ASK FOR AID. IN THE VIEW OF THIS EMBASSY, TURKEY IS GOING TO NEED AN AID SUBSCRIPTION BEFORE LONG. IT WILL NEED AID TO PREVENT ITS ECONOMY FROM SLIDING TO THE POINT WHERE ECONOMIC SLACK PREVENTS THE POSSIBILITY OF INCREASING FOREIGN EARNINGS AND THREATENS SOCIAL STABILITY. EMBASSY BELIEVES THAT USG SHOULD GIVE SERIOUS CONSIDERATION TO THIS QUESTION.

6. A MEETING OF THE OECD CONSORTIUM FOR TURKEY IN SEPTEMBER COULD BE A TIME FOR GOVERNMENTS, AFTER CONSULTATION AMONG THEMSELVES, TO CONFIDENTIAL

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HOLD OUT THE POSSIBILITY OF AID. THIS SHOULD BE CONDITIONED STRICTLY UPON THE MAINTENANCE OF ECONOMIC DISCIPLINE BY THE GOT, AS DEFINED IN CONJUNCTION WITH THE IMF. THE OFFER, FOR FUTURE REALIZATION, WOULD BE A MEANS OF PROVIDING THE GOT WITH THE EXCUSE AND INCENTIVE TO TAKE THE CORRECTIVE MEASURES NEEDED TO SET THE ECONOMY ON A PATH TOWARD RECOVERY AND TO REACTIVATE TURKEY'S STANDBY WITH THE FUND. ALTHOUGH THEY WILL NOT WISH TO BE SEEN AT HOME AS FOLLOWING THE ECONOMIC DICTATES OF CONSORTIUM MEMBERS, TURKISH OFFICIALS WOULD HAVE NO COMPUNCTION IN ACCEPTING AID AND, WE HAVE NO DOUBT, WILL BE INGENIOUS ENOUGH TO JUSTIFY THEMSELVES.
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